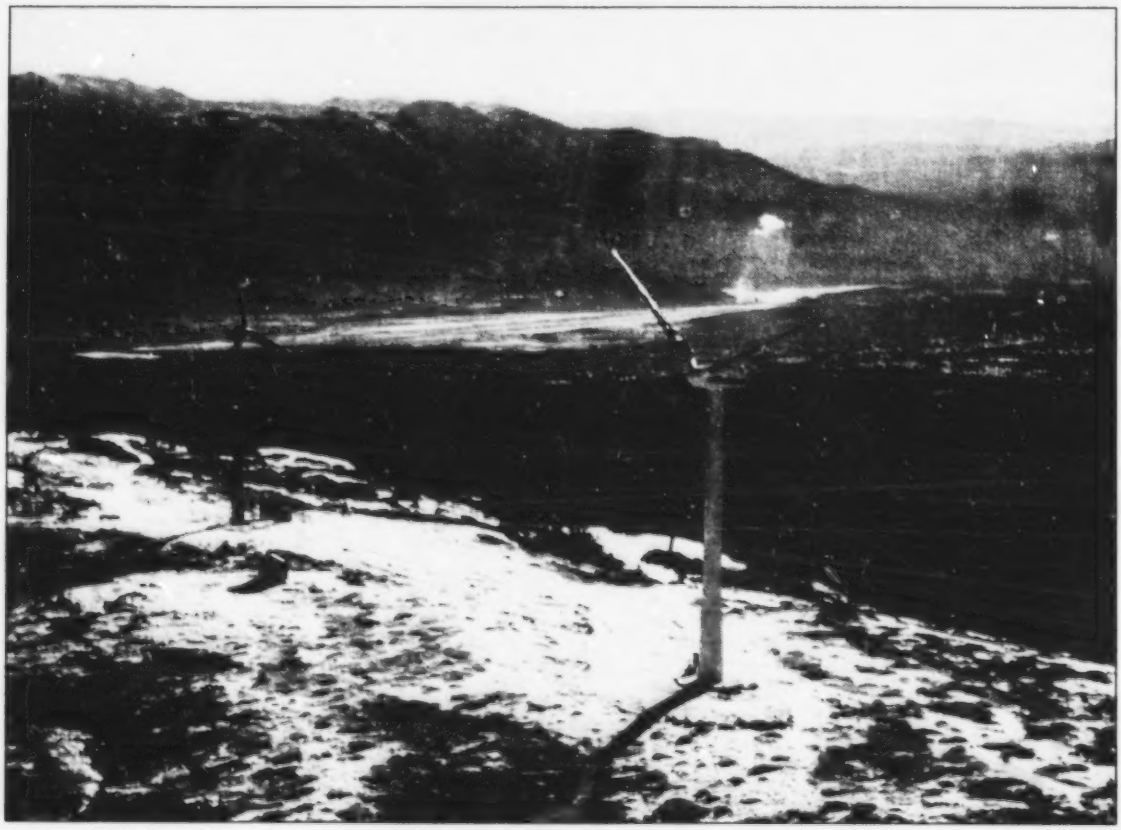
Yukon Development Corporation

Yukon Energy Corporation



1999 ANNUAL REPORT

101-01862/

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The photographs on pages 2-5 and 30-35 tell the story of the installation of the second wind turbine on Haeckel Hill, in Whitehorse. It begins with the arrival of the 660 KW turbine at the docks in Skagway, its drive into Whitehorse, the trip up the road to the top of Haeckel Hill, and then the piece-by-piece installation at the site. All photographs are courtesy of the Yukon government.

YDC

1999 Annual Report

June 30, 2000

The Honourable Pat Duncan
Minister Responsible for the Yukon Development Corporation
Government of Yukon
Box 2703
Whitehorse, Yukon Y1A 2C6

Dear Minister,

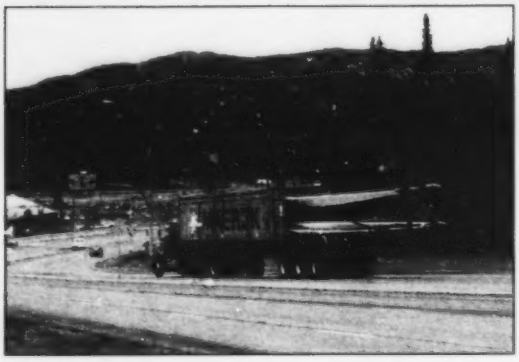
As the annual report indicates, 1999 was a year of consolidation and development for the Yukon Development Corporation and its subsidiary, the Yukon Energy Corporation.

For the Yukon Development Corporation, the year was defined by new energy initiatives, including the Commercial Energy Management Program, a Green Power Implementation Strategy, and expansion of the Rate Stabilization Fund. The corporation continued to invest in electrical infrastructure and associated strategic planning and research and development. It worked on protocols to clarify the roles and relationships between the Yukon government, the Yukon Development Corporation and its subsidiary, Yukon Energy, and is working on a strategy for long-term electrical rate stability.

Yukon Energy completed its second year under direct management in 1999. During this year, Yukon Energy completed a major capital program (including full restoration of the Whitehorse Rapids Hydro Plant and the construction of the award-winning Yukon Energy Building) and the Yukon Utilities Board approved final 1998 electrical rates. A General Rate Application was deferred through rigorous cost control, new financial systems were commissioned, measures were taken to address the Year 2000 (Y2K) risk, and an environment policy was adopted.

Respectfully submitted,

Ray Wells, Chair
Yukon Development Corporation



CORPORATE PROFILE

The Yukon Development Corporation is a crown corporation created in 1986 by the *Yukon Development Corporation Act*. It is governed by a Board of Directors appointed by the Yukon government and has a legislative mandate to participate with the private sector in the economic development of the Yukon. In particular, the Act mandates the corporation to:

- develop and promote the development of Yukon resources on an economic and efficient basis;
- promote employment and business opportunities for Yukon residents;
- assure a continuing and adequate supply of energy in the Yukon in a manner consistent with sustainable development;
- carry out development policy directives issued to it by the Yukon Cabinet.

The corporation currently maintains only one investment (Education Building) made within the full scope of its statutory mandate.

In 1993, the corporation's role was restricted, by government Order-in-Council direction, to energy-related activities designed to promote the economic development of the Yukon. In particular the corporation:

- assures a continuing and adequate supply of energy in the Yukon in a manner consistent with sustainable development;
- alleviates the effects of any energy shortage that may occur in the Yukon; and
- promotes the establishment, development and operation within the Yukon of industries or undertakings that are by their nature energy-dependent, through the provision of cost-effective energy or energy-related infrastructure.

The corporation has three principle functions. It acts as sole shareholder in the subsidiary Yukon Energy Corporation; invests in energy infrastructure planning and development; and designs and delivers energy programs and services, such as energy efficiency, green power, rate stabilization, rural electrification, research and development.

THE YEAR IN REVIEW

HIGHLIGHTS

Rate stabilization initiative

The Rate Stabilization Fund was developed and implemented with funding provided by the Yukon government to ensure stable electrical bills for non-government residential and general service ratepayers through a program of winter and summer benefits.

A strategy for long-term electrical rate stabilization was developed in conjunction with Yukon Energy Corporation. Actions are being taken to "close the gap" between non-government residential and general service electrical bills, currently subsidized through the Rate Stabilization Fund until March 31, 2002, and the electrical rates set following the loss of 40 per cent of power sales in 1998 with the shutdown of the Anvil Range Mine.

Energy infrastructure planning and investment

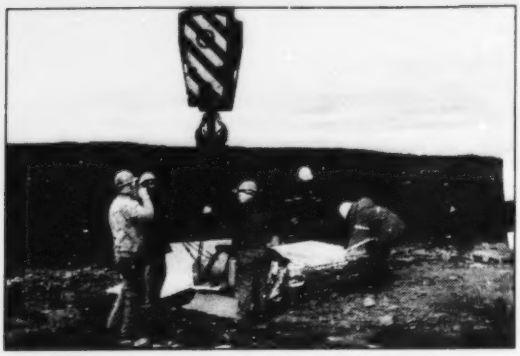
Preliminary system design and cost estimating for the proposed Mayo to Dawson transmission system project was financed to facilitate decision-making in 2000. Yukon Development reinvested its dividend in long-term financing for the Yukon Energy Corporation, consistent with the requirement to maintain a 60:40 debt to equity relationship with its subsidiary.

Energy efficiency initiative

The corporation developed an expanded Commercial Energy Management Program and signed a new operating agreement with Yukon Housing Corporation for program delivery. Plans were made to train and certify Yukon commercial energy auditors. Several pilot projects were completed or initiated, including the energy efficiency "House-Calls" project, in partnership with the Yukon Conservation Society, and the Parking Lot Controller pilot project.

Green power initiative

The corporation developed a draft implementation strategy for the Green Power Initiative, along with background technical papers. Consultations were undertaken with energy stakeholders, other interested parties and the public. Progress was also made on the implementation of early actions, such as the commissioning of a portable solar hybrid demonstration unit and program development.



Wind research and development initiative

Building on Yukon Energy's experience from more than five years of research and development on Haeckel Hill, specifications were designed for unique northern operating conditions and tendering was completed to purchase a commercial-scale wind generator for installation in the Whitehorse area in 2000.

Governance

Joint discussions with the Yukon government resulted in proposals to clarify the roles and relationships between the Yukon government as owner, the Yukon Development Corporation as shareholder, and the Yukon Energy Corporation as a regulated subsidiary electrical utility.

RATE STABILIZATION FUND OPERATIONS

The Rate Stabilization Fund was created November 1998 by Yukon government Order-in-Council pursuant to the *Yukon Development Corporation Act*. As part of a comprehensive, long-term rate stabilization initiative, the fund is intended to support affordable and stable electrical bills for Yukon consumers. The Yukon government allocated $10 million to the Yukon Development Corporation for implementation of bill stabilization through to March 31, 2002.

Bill stabilization was introduced for all residential-non-government rate payers effective December 1, 1998. Benefits were extended to general service-non-government and municipal government ratepayers, and summer benefits implemented for all eligible ratepayers effective April 1, 1999. Winter benefits commenced as of October 1, 1999.

$2,026,267 was spent on rate stabilization benefits throughout the territory. The number of residential-non-government ratepayers receiving benefits ranged from a low of 10,421 during summer months, to a winter high of 11,890. The number of general service-non-government ratepayers receiving benefits ranged from a low of 1,489 to 1,977. And the number of general service-municipal government ratepayers receiving benefits ranged from a low of 106 to a high of 176.

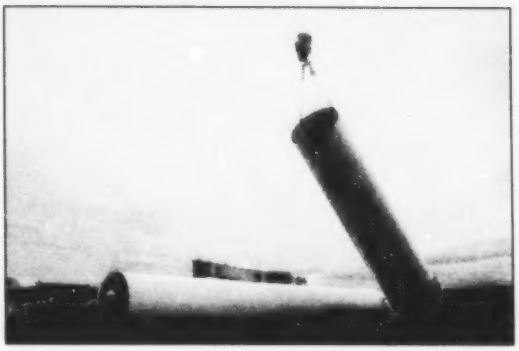
SHAREHOLDER DIRECTION

The Government of the Yukon issued directives to the Board of Directors that had a direct impact on the business and affairs of the Yukon Development Corporation in 1999. The following Order-in-Council was given pursuant to paragraph 4 (d) of the *Yukon Development Corporation Act*:

- Order-in-Council 1999/21 dated February 24, 1999. To expand the Rate Stabilization Fund to include general service-non-government and municipal government customers of the electrical utilities effective December 1, 1998.

The Government of the Yukon appointed directors to the Board of the Yukon Development Corporation during 1999 by issuing the following Orders-in-Council pursuant to section 7.(2), *Yukon Development Corporation Act.*

- Order-in-Council 1999/162 re-appoints Ray Wells as a director and chair for a term ending September 17, 2001 and Sally Wright as a director for a term ending September 17, 2002.
- Order-in-Council 1999/188 appoints Carl Charlie as a director commencing October 25, 1999 for a term ending October 24, 2002.



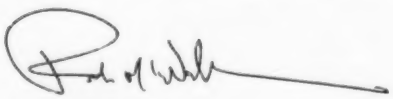
MANAGEMENT REPORT

The consolidated financial statements and all other financial information relating to the corporation contained in this annual report are the responsibility of management. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in Canada using methods appropriate for the industry in which the corporation operates. The preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgment. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements. Financial information presented elsewhere in this annual report is consistent with that in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by an external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the corporation's financial position, results of operations and changes in financial position in accordance with generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the *Financial Administration Act* (Yukon) as applicable, the *Yukon Development Corporation Act* and the bylaws of the corporation. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

The corporation's Board of Directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditor has full and free access to the Audit and Finance Committee, with and without the presence of management.



Rob McWilliam
President and Chief Executive Officer
June 30, 1999

AUDITOR'S REPORT

The Honourable Pat Duncan, MLA
Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 1999 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles. As required by the ***Yukon Development Corporation Act***, I report that, in my opinion, these principles have been applied on a basis consistent with that of the proceeding year.

Further, in my opinion, proper books of accounts have been kept by the corporation and by its wholly-owned subsidiary and the consolidated financial statements are in agreement therewith; and the transactions of the corporation and of its wholly-owned subsidiary that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the ***Financial Administration Act*** and regulations, the ***Yukon Development Corporation Act*** and the bylaws of the corporation.

In my report dated June 30, 1999, my opinion on the December 31, 1998 financial statements contained a reservation because of an understatement of revenues and net income of $2,139,000 for the year ended December 31, 1998. Management recorded this amount as revenue and net income for the year ended December 31, 1997, as directed by the Yukon Utilities Board in Board Order 1999-2.

Sheila Fraser

Sheila Fraser, FCA
Deputy Auditor General
for the Auditor General of Canada

July 21, 2000, Ottawa, Canada

Consolidated balance sheet

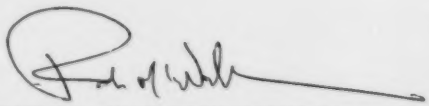
as at December 31, 1999 (in thousands of dollars)

	1999	1998 (restated)
ASSETS		
Current assets		
Cash and short-term investments (note 3)	$19,232	$5,818
Accounts receivable (note 4)	9,857	9,332
Inventories	811	705
Prepaid expenses	347	281
Current portion of investment (note 5)	198	175
	30,445	**16,311**
Long-term receivables		
Long-term receivables (note 6)	5,143	6,126
Mortgages receivable	47	63
	5,190	**6,189**
Diesel Contingency Fund (note 7)	(57)	2,236
Rate Stabilization Fund (note 8)	8,595	—
Capital assets (note 9)	120,041	112,015
Deferred charges (note 10)	4,001	3,750
Investments (note 5)	4,561	4,759
	172,776	**145,260**
LIABILITIES		
Current liabilities		
Accounts payable	3,454	1,766
Current portion of long-term debt (note 11)	830	763
Interest payable	16	16
	4,300	**2,545**
Deferred revenue (note 12)	13,117	121
Reserve for uninsured losses (note 13)	(746)	(621)
Reserve for future removal and site restoration costs	4,069	3,532
Diesel contingency fund (note 7)	(57)	2,236
Rate Stabilization Fund (note 8)	8,595	—
Long-term debt (note 11)	45,189	46,009
EQUITY		
Contributed capital	41,501	41,501
Retained earnings	56,808	49,937
	98,309	**91,438**
	$172,776	**$145,260**

The accompanying notes are an integral part of the financial statements.
Contingencies (Notes 6, 18, 19)

Approved by the Board:

Chair



Director

Consolidated statement of income and retained earnings

for the year ended December 31, 1999 (in thousands of dollars)

	1999	1998 (restated)
Revenue		
Sales of power	$23,181	$24,534
Other	139	(15)
	23,320	**24,519**
Operating expenses		
Operations and maintenance	5,614	5,943
Administration	5,006	4,665
Amortization of capital assets	4,295	4,156
Amortization of deferred charges	792	660
	15,707	**15,424**
Income from operations	**7,613**	**9,095**
Other expenses (income)		
Provision for uninsured losses	50	50
Finance charges, net (note 14)	451	1480
Transition costs	(7)	70
Other expenses (note 15)	248	155
	742	**1,755**
Net income	**6,871**	**7,340**
Retained earnings, beginning of year	**49,937**	**42,999**
Power rate relief and subsidy payments	**—**	**(402)**
Retained earnings, end of year	**$56,808**	**$49,937**

The accompanying notes are an integral part of the financial statements.

Consolidated statement of cash flows

for the year ended December 31, 1999 (in thousands of dollars)

	1999	1998 (restated)
Cash provided by (used in) operating activities		
Net income	**$6,871**	**$7,340**
Items not resulting in a cash payment		
Amortization of capital assets	4,295	4,156
Amortization of deferred charges	792	660
	5,087	**4,816**
Changes in non-cash components of working capital		
Increase in accounts receivable	(525)	(6,710)
Decrease (Increase) in inventories	(106)	78
Increase in prepaid expenses	(66)	(33)
Increase (Decrease) in accounts payable	1,688	(1,000)
Decrease in interest payable	—	(1)
Increase in reserve for future removal and site restoration	537	569
	1,528	**(7,097)**
Cash provided by operating activities	**13,486**	**5,059**
Cash provided by (used in) investing activities		
Additions to capital assets	(11,900)	(4,994)
Contributions for plant extension	(421)	9
Increase in deferred charges	(1,043)	(176)
Increase in reserve for uninsured losses	(125)	(563)
Principal payments received on investments	175	154
Cash used in investing activities	**(13,314)**	**(5,570)**
Cash provided by (used in) financing activities		
Repayments of long-term debt	(753)	(812)
Decrease (Increase) in long-term receivables	999	(1,448)
Increase in deferred revenue	12,996	121
Cash provided by financing activities	**13,242**	**(2,139)**
Cash provided by (used in) other activities		
Power rate relief and subsidy payments	—	(402)
Cash used for other activities	—	(402)
Net increase (decrease) in cash during the year	13,414	(3,052)
Cash beginning of year	5,818	8,870
Cash end of year	**$19,232**	**$5,818**

The accompanying notes are an integral part of the financial statements.

Notes to consolidated financial statements

December 31, 1999 (tabular amounts in thousands of dollars)

1. Authority, objectives and operations

Yukon Development Corporation (the "corporation") was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (NCPC) in the Yukon.

In 1993, the corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The corporation's wholly-owned subsidiary, Yukon Energy Corporation, was incorporated under the *Yukon Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is regulated by the Yukon Utilities Board.

Pursuant to Order-in-Council 1990/76, Yukon Energy Corporation is exempt from the *Financial Administration Act* (Yukon).

2. Significant accounting policies

Financial statement presentation

The consolidated financial statements of Yukon Development Corporation have been prepared by management and conform to accounting principles generally accepted in Canada. The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly-owned subsidiary, Yukon Energy Corporation, and take into account generally accepted accounting methods and practices of regulatory bodies. All significant inter-company transactions and balances have been eliminated on consolidation. The regulatory accounting practices adopted by Yukon Energy Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of Yukon Energy Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles. A description of significant accounting policies follows.

Water regulation

The Yukon Territory Water Board decides if and for how long Yukon Energy Corporation will have a water licence for the purposes of operating dams for hydro generation. The licences will also indicate terms and conditions for the operation of dams. The costs incurred to secure a licence are amortized over the term of the existing licence plus the expected term of the renewed licence.

Rate regulation

The corporation's subsidiary, Yukon Energy Corporation, is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board pursuant to the *Public Utilities Act* (Yukon). The regulatory process begins when

Yukon Energy Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two years. The Yukon Utilities Board (YUB) must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon government through Order-in-Council that specify how the interests of the customer and the utilities are to be balanced.

The YUB follows a two-stage decision process. In the first stage, the total costs that the utility will incur by making electricity available to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- The costs to the utility to run its operations and maintain its equipment (personnel and materials);
- The cost associated with the amortization of all capital equipment;
- The return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost-of-service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Order-in-Council issued by the Yukon Cabinet, which give specific government direction to the Board.

Normally, Yukon Energy Corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final as a result of the hearing. Interim hearings and interim rates may be used to deal with unforeseen circumstances, such as those described in Note 6.

Capital assets

Capital assets are stated at cost which includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Financial Information System	5 to 10 years
Transportation	13 to 14 years
Other equipment	5 to 15 years

Yukon Energy Corporation capitalizes development studies and an allowance for funds used during construction (AFUDC) at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to meet customers' specific requirements. These contributions are amortized to income on the same basis as, and offset the amortization charge of, the assets to which they relate. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Inventories

Inventories which consist of material, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All demand-side management expenditures related to administration expenses and information programs are expensed as incurred, while costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings over five years starting in the year that the project is abandoned.

Costs related to water licence renewals are deferred and amortized to earnings over the term of the existing license plus the expected term of the renewed license, which is generally a long-term arrangement of 25 years.

Regulatory hearing costs are deferred and amortized to earnings over the period to which the hearing relates.

General equipment overhaul expenditures in excess of $250,000 are deferred and amortized to earnings on a straight-line basis over five years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Investments

The corporation's investments are recorded at the lower of cost or net realizable value.

Reserve for uninsured losses

Yukon Energy Corporation maintains a reserve for uninsured losses. An appropriation to the reserve of $50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Power rate relief and subsidy payments

Power rate relief and subsidy payments are paid as directed by the Yukon government and charged to retained earnings as required by regulation.

Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, other long-term receivables, the reserve for uninsured losses and the reserve for future removal and site restoration costs. Actual results could differ from these estimates.

3. Cash and short term investments

	1999	1998
Cash and short term investments YDC	$18,014	$9,323
Bank balance (overdraft) YEC	1,142	(1,907)
Operating line of credit	—	(1,600)
Short-term investments	76	2
	$19,232	**$5,818**

Yukon Energy Corporation has, if needed, an operating demand line of credit with its banker that allows the corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon government.

4. Accounts receivable

	1999	1998
Fire insurance claim (notes 9, 12, 18)	$3,121	$3,604
Rate adjustment receivable	2,960	2,362
Wholesale energy sales	1,618	1,712
Retail energy sales	1,707	966
Other	451	688
	$9,857	**$9,332**

Accounts receivable includes $2,143,000 (1998 - $1,801,000) due from The Yukon Electrical Company Limited. The corporation's sales to The Yukon Electrical Company Limited were approximately $15,258,000 (1998 - $15,232,000) but, due to the wholesale nature of the sales, the corporation is not economically dependent on it.

5. Investments

The corporation's investments are summarized as follows:

	1999	1998
Direct financing lease	$4,759	$4,934
Less current portion	198	175
	$4,561	**$4,759**

In 1990, the corporation acquired the building known as Old Yukon College from the Yukon government for a nominal fee. The building was renovated and is being leased back to the government for a period of 20 years. At the end of the lease term (in 2011) the government may purchase the building from the corporation for a nominal fee. Interest from the lease is shown as finance income in note 14.

6. Long-term receivables

	1999	1998
Anvil Range Mine bad debt	$3,177	$3,177
Anvil Range Mine Rider J cost of service shortfall	1,850	2,775
Anvil Range Mine Rider G balance	116	174
	$5,143	**$6,126**

Yukon Energy Corporation is exposed to credit risks in the event of non-performance by counterparties to financial instruments. Operations of the Anvil Range Mine in Faro ceased in January, 1998 and the Anvil Range Mining Corporation applied for court protection from its creditors. Yukon Energy Corporation's management expects to recover the receivable through future customer rates. Yukon Energy Corporation requested, in the April 22, 1998 rate application, that the receivable balance be recovered from its customers over five years. This application was denied by the Yukon Utilities Board in Board Order 1998-5.

Yukon Energy Corporation has appealed this decision to the Court of Appeal. Until the Court of Appeal decides whether or not Yukon Energy Corporation is entitled to collect the receivable from its customers, the amount has been recorded as a long-term receivable. Based on past experience, it is management's position that the Court of Appeal will allow Yukon Energy Corporation to collect this amount. The appeal is scheduled to be heard in March 2001.

There is uncertainty regarding the collection of this receivable through future customer rates since it requires the approval of the Court of Appeal. The amount that may subsequently be approved for collection might vary from nil to $3,177,182. Any shortfall in future recovery below $3,177,182 will be recorded as an expense in the period the shortfall becomes reasonably assured.

In accordance with Board Order 1998-5, Yukon Energy Corporation recorded the cost of service shortfalls as a long-term receivable of $2,775,000 for 1998 and $1,850,000 for 1999, and recorded Rider G balance for $174,000 for 1998 and $116,000 for 1999, related to the closure of Anvil Range Mine. The Yukon Utilities Board has ordered that this long-term receivable be included in the rate base of Yukon Energy Corporation. The Board also ordered that the amount to be included in Yukon Energy Corporation's rate base be reduced by $925,000 per year commencing in 1998 for the cost-of-service shortfall and $58,000 per year for Rider G. The long-term portion of $1,850,000 represents two years at $925,000 per year, and $116,000 represents two years at $58,000 per year.

7. Diesel contingency fund

The Diesel Contingency Fund was established with Board Order 1996-6 by the Yukon Utilities Board. The fund is administered by Yukon Energy Corporation on behalf of the Yukon Utilities Board, and as such, is recorded as a trust asset and a trust liability.

	1999	1998
Opening balance	$2,236	$2,835
Interest	13	159
Hydro availability buildup (drawdown)	(1,132)	467
Forest fire impact buildup	—	58
Yukon Utilities Board Orders 1998-5 & 1997-7	(1,174)	(1,283)
Closing balance	**$(57)**	**$2,236**

In accordance with Board Order 1998-5, Yukon Energy Corporation made contributions to eligible customers to offset Rider J until the Diesel Contingency Fund was depleted.

8. Rate Stabilization Fund

The $10 million Rate Stabilization Fund was created by the Yukon government with a mandate to support stable and affordable electrical rates to March 31, 2002. The goal of the Rate Stabilization Fund is to protect all non-government residential, general service (commercial) and municipal rate payers by minimizing the impact of rate increases over this period. The fund will be reviewed with input from stakeholders and the public in 2001.

	1999	1998
Opening balance	$10,000	—
Payments	(1,830)	—
Interest	425	—
Closing balance	**$8,595**	—

9. Capital assets

			1999	1998
	Cost	Accumulated amortization	Net book value	Net book value
Hydro-electric and diesel plants	$118,355	$27,178	$91,177	$87,648
Transmission	18,353	5,178	13,175	13,517
Distribution	8,828	2,674	6,154	6,115
Buildings and other equipment	8,876	1,784	7,092	3,591
Financial Information System	739	19	720	—
Transportation	740	60	680	625
Land	110	—	110	103
Construction-in-progress	2,563	—	2,563	2,355
	$158,564	**$36,893**	**$121,671**	**$113,954**
Less: Contributions for plant extensions	2,068	438	1,630	1,939
	$156,496	**$36,455**	**$120,041**	**$112,015**

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets which were used to reconstruct the facility are included in the capital asset costs above. The resulting gain from insurance proceeds is included in deferred revenue (see notes 12 and 18).

The capital assets also include $1,991,982 for betterments which improved the facility beyond the value replaced by the insurance proceeds.

10. Deferred charges

	Cost	Accumulated amortization	1999 Net book value	1998 Net book value
Relicensing	$3,956	$527	$3,429	$3,247
Feasibility studies	2,878	2,780	98	184
Generating equipment overhauls	640	166	474	292
Other	—	—	—	27
	$7,474	**$3,473**	**$4,001**	**$3,750**

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

11. Long-term debt

The corporation's long-term debt is summarized as follows:

	1999	1998
Government of Canada: $40,000,000 flexible term note bearing interest at 7% payable in annual installments of $1,000,000 interest and capital, with the balance due January 1, 2028	$29,800	$30,016
Mortgage payable $5,750,000 mortgage bearing interest at 11.5%, payable in blended monthly installments of $60,000 with the final payment due July 2011	4,756	4,934
Toronto Dominion Bank of Canada: $12,400,000 term note bearing interest at 7.94% payable in blended monthly installments of $102,000 interest and capital, with the balance of $67,000 due October 31, 2016. The note is guaranteed by the Yukon government	11,463	11,822
	46,019	**46,772**
Less: Current portion	830	763
	$45,189	**$46,009**

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission. The note is secured by a mortgage against the acquired assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

Mortgage payable

The mortgage is secured by the land and buildings described in note 5.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2000	$830
2001	897
2002	970
2003	1,047
2004	1,132
Thereafter	41,143
	$46,019

Fair value

Fair value of $45,199,000 (1998 - $49,832,000) for all long-term debt was estimated using discounted cash flow analysis based on an estimate of Yukon Energy Corporation's current borrowing rate for similar borrowing arrangements.

12. Deferred revenues

	1999	1998
Deferred gain on fire insurance proceeds	$6,555	—
Green and wind power, energy efficiency	6,272	—
Deferred diesel fuel price adjustment	290	121
	$13,117	**$121**

The Yukon government provided $6,000,000 towards sustainable energy for the Yukon people. Two 10-year programs were established totalling $4,000,000 for green power and energy conservation and efficiency initiatives. Details on how they will be structured and administered are still being developed in consultation with stakeholders. $2,000,000 was provided for a wind turbine that is being built in 2000. Interest on these amounts is also recorded as deferred revenue.

The deferred gain represents the gain resulting from insurance proceeds in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the Yukon Utilities Board in Board Order 2000-3 (see notes 9 and 18).

Yukon Energy Corporation is authorized by Order-in-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel in accordance with procedures determined by the Yukon Utilities Board. Significant fluctuations in diesel fuel expense due to unusual circumstances or events, which result in a diesel fuel price adjustment, are deferred and recovered or refunded over specific future periods designated by the YUB through revised rates charged to customers.

13. Reserve for uninsured losses

	1999	1998
Opening balance	$(621)	$(58)
Expense	50	50
Losses incurred		
Asset replacement	(67)	(33)
Line failures	(33)	(35)
Forest fires	–	(178)
Whitehorse Rapids Generation Plant insurance deductible	(75)	–
Whitehorse Rapids Generation interruption	–	(367)
Closing balance	**$(746)**	**$(621)**

Yukon Energy Corporation's target balance for the reserve for uninsured losses is based on Yukon Energy Corporation's past experience. Yukon Energy Corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

14. Finance charges, net

	1999	1998
Interest on long-term debt	$1,869	$1,913
Other interest	52	150
Interest (income) expense	(587)	82
Finance income	(609)	(629)
Allowance for Funds Used During Construction (AFUDC)	(274)	(36)
	$451	**$1,480**

15. Other expenses

	1999	1998
First Nations relations	$9	—
Research and development	179	155
Energy efficiency investment initiative	9	—
Strategic infrastructure planning	51	—
	$248	**$155**

16. Rate applications

On April 22, 1998, Yukon Energy Corporation filed a revised 1997 and 1998 rate application requesting a reduction in Yukon Energy Corporation's rate of return on equity in 1997, 1998 and 1999, the collection of the Anvil Range Mine receivable and the cost-of-service shortfalls in 1997 and 1998 caused by the shutdown of the mine. Yukon Energy Corporation also requested Board Orders to finalize 1997 rates and approve interim 1998 rates.

On July 30, 1998, Yukon Energy Corporation received the Yukon Utilities Board Order 1998-5 with respect to this application. The Board ordered that the rate of return on equity be reduced from 10.75% to 9.45% for 1997 and 9.138% for 1998 and 1999. The Board disallowed the recovery of the Anvil Range Mine receivable of $3,177,200 and stated that the Board "was of the opinion" that Yukon Energy Corporation should absorb the debt. This decision is being appealed through the Courts. The Board ordered that Yukon Energy Corporation's rates for 1997 be confirmed as final.

The Board approved the recovery of a 1997 revenue shortfall of $812,000 through a 5.8% rider, effective August 1, 1998 until fully collected. The Board also acknowledged additional revenue shortfalls of $1,326,700 for 1997, $4,777,400 for 1998 and $4,518,000 for 1999. The Board approved recovery of these shortfalls, excluding amounts related to the disallowed Anvil Range Mine receivable, through an interim refundable rider of 9.48% effective for billings issued on or after August 1, 1998. (In subsequent Board Order 1998-6, the Board approved an extension of the implementation date for the riders from August 1, 1998 to September 1, 1998). The rider was adjusted to 15.28% after the 5.8% rider ended for the 1997 $812,000 shortfall. In Board Order 1999-5, the Board approved the corporation's 1998 rates as final and directed the corporation to increase rider J from 15.28% to 18.74% effective December 1, 1999 subject to the corporation not filing for a further rate increase for the year ending December 31, 2000.

17. Pension costs and obligations

The corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 18 years.

The corporation has contracted with external organizations to provide services of trustee, administrator, and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of December 31, 1999 by a consulting actuarial firm Aon Consulting Inc. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1999 to December 31, 1999, and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and The Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of plan assets is based on market values as reported by Royal Trust as at December 31, 1999.

The following table sets out the assumptions and pension amounts as at December 31, 1999. The corporation's employees have the option to belong to the corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). As at December 31, 1999, the corporation's defined pension plan had 41 members, and the RRSP plan had 12 members.

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the year's maximum pensionable earnings (Canada Pension Plan) for the same 5-year period.

Annual cost of living increases to a maximum of 3.25% are provided to pensioners to the extent that the funds are available in the indexing fund. The corporation contributes amounts as prescribed by an independent actuary. The following table sets out the assumptions and pension amounts as at December 31, 1999.

Employees make basic and indexed contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 2.0% of earnings in excess of the year's maximum pensionable earnings to a maximum of $2,500 per year

The following table sets out the assumptions and pension amounts as at December 31, 1999.

	1999	1998
Discount rate	7.00%	7.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	18 years	19 years
Benefit obligation determined by actuarial valuation	$3,298	$2,806
Fair value of plan assets	3,615	2,803
Plan surplus (deficit)	317	(3)
Pension expense	222	213
Employer contributions	193	208

18. Contingencies

(a) Fire insurance proceeds

The corporation is in the process of negotiating a settlement with its insurer with respect to proceeds arising from a fire which destroyed capital assets of the corporation. Management used its best estimate to determine the proceeds. However, if the proceeds are greater or less than the estimate, a larger or smaller gain will be recognized in future years.

(b) General

In the ordinary course of business activities, the corporation is a plaintiff and has been named as a defendant in certain litigation and other claims. Management believes that the resolution of such litigation and claims will not have a material adverse effect on the position of the corporation. Yukon Energy Corporation also has claims pending against certain parties, the outcomes of which are not yet determinable.

19. Environmental liabilities

The corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The corporation conducts its operations so as to protect public health and the environment, and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the corporation, is considered probable and the costs can be reasonably estimated.

20. Comparative figures

Certain 1998 figures, which are presented for comparative purposes, have been restated to conform with the current year's presentation.

21. Non-consolidated financial information

The nature and size of operations of the corporation and its subsidiary, Yukon Energy Corporation, differ substantially. Audited financial statements of Yukon Energy Corporation for the year ended December 31, 1999 are also prepared and included in Yukon Development Corporation's annual report. Certain non-consolidated unaudited financial information of the corporation is provided in the corporation's annual report for interested parties.

Non-consolidated statement of income and retained earnings (unaudited)

for the year ended December 31, 1999 (in thousands of dollars)

	1999	1998
Revenue		
Interest income	$2,916	$2,635
Dividend income	3,406	—
Other income	17	4,216
	6,339	**6,851**
Operating expenses		
Administration	769	378
Interest	(578)	(526)
Amortization	45	—
Transition costs	(7)	70
First Nations relations	9	—
Research and development	179	155
Energy Efficiency Investment Initiative	9	—
Strategic infrastructure planning	51	—
	477	**76**
Net income	**5,862**	**6,775**
Retained earnings, beginning of year	**39,524**	**32,749**
Retained earnings, end of year	**$45,386**	**$39,524**

Non-consolidated balance sheet (unaudited)

as at December 31, 1999 (in thousands of dollars)

	1999	1998
ASSETS		
Current assets		
Cash and short-term investments	$18,014	$9,323
Accounts receivable	82	12
Due from Yukon Energy Corporation	269	—
Current portion of investment	198	175
	18,563	**9,510**
Trust assets		
Rate Stabilization Fund	8,595	—
Investments		
Equity investments	39,000	39,000
Loans and advances	34,152	31,946
Direct financing lease	4,561	4,759
Capital assets	1,053	—
Deferred charges	974	1,000
	$106,898	**$86,215**
LIABILITIES		
Current liabilities		
Accounts payable	373	94
Interest payable	16	16
Due to Yukon Energy Corporation	—	147
Current portion of long-term debt	199	178
	588	**435**
Deferred revenue	6,272	—
Trust liabilities		
Rate Stabilization Fund	8,595	—
Long-term debt	4,556	4,755
EQUITY		
Contributed capital	41,501	41,501
Retained earnings	45,386	39,524
	86,887	**81,025**
	$106,898	**$86,215**

Financial summary

	1999	1998 (restated)	1997 (restated)	1996	1995
Earnings ($000)					
Revenues					
Electric sales	23,181	24,534	27,656	33,950	22,175
Other	139	(15)	298	65	83
Total revenues	23,320	24,519	27,954	34,015	22,258
Operating expenses					
Administration	5,006	4,665	4,365	4,037	3,144
Amortization	5,087	4,816	5,659	5,224	4,764
Management fee	—	—	807	793	789
Operations and maintenance	5,614	5,943	13,476	13,940	5,060
Total operating expenses	15,707	15,424	24,307	23,994	13,757
Operating income	7,613	9,095	3,647	10,021	8,501
Finance charges	451	1,480	2,798	2,739	1,128
Contingency reserves	50	50	50	50	32
Energy Conservation Grant	—	—	500	—	—
Loss (gain) on investments	—	—	31	—	318
Write-off of disallowed costs	—	—	—	—	—
Transition costs	(7)	70	880	—	—
Other expenses	248	155	—	—	—
Net earnings (loss)	6,871	7,340	(612)	7,232	7,023
Cash flows ($000)					
Operations	13,486	5,059	7,890	7,912	15,452
Capital expenditures	(11,900)	(4,994)	(1,920)	(5,041)	(2,911)
Investing	(1,414)	(576)	(408)	658	2,371
Financing	13,242	(2,139)	(4,891)	640	(1,615)
Other	—	(402)	(1,510)	(1,774)	(3,113)
Net inflow (outflow)	13,414	(3,052)	(839)	1,079	10,184
Balance Sheet ($000)					
Capital assets					
Gross	156,496	145,058	142,863	139,716	135,421
Net	120,041	112,015	111,186	110,856	110,146
Investments	4,561	4,759	4,934	5,088	5,549
Total assets	172,776	145,260	140,170	138,885	136,087
Capitalization					
Long-term debt	46,019	46,772	47,584	49,157	50,845
Equity	98,309	91,438	84,204	84,185	78,729
Financial ratios					
Capital structure at year end					
Long-term debt %	32	34	36	37	39
Equity %	68	66	64	63	61
Weighted average borrowing rate at year end %	7.70	7.71	7.72	8.76	8.76
Return on equity %	7.24	8.36	(0.73)	8.88	9.22
Interest coverage	16.24	5.96	0.78	3.64	7.23

Directors and staff at December 31, 1999

Board of Directors

Chair	Ray Wells
Vice-Chair	Ed Chambers
Directors	Fred Blanchard
	Carl Charlie
	Aileen Horler
	Pat Irvin
	Rob McWilliam
	Sally Wright

Officers

President and CEO	Rob McWilliam
Corporate Treasurer	Don Willems
Corporate Secretary	Duncan Sinclair
Assistant Corporate Secretary	Darlene Morgan

Audit Committee

Chair	Ed Chambers
Members	Pat Irvin
	Rob McWilliam

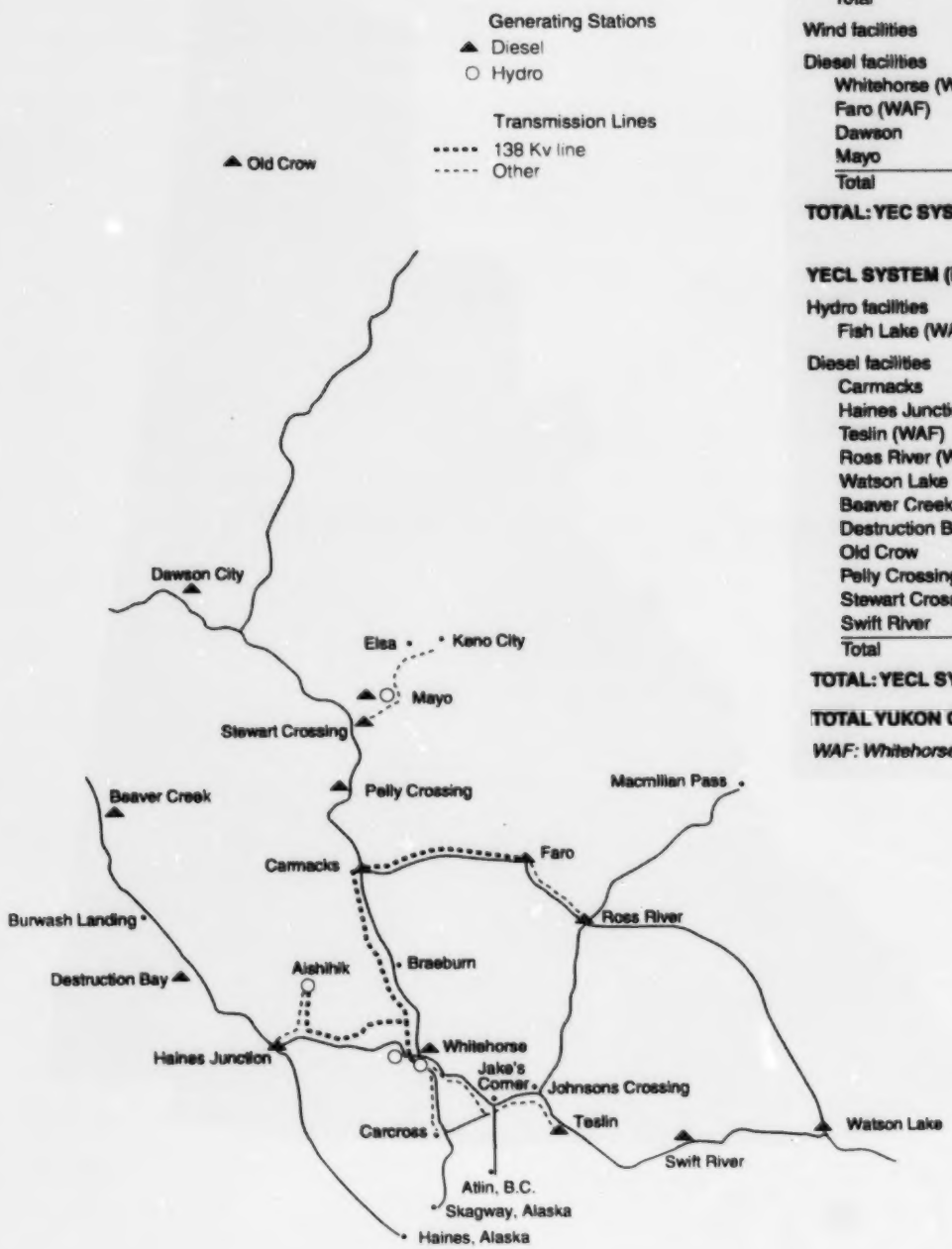
Auditors

Auditor General of Canada

Yukon Development Corporation

P. O. Box 2703 (D-1)
Whitehorse, Yukon Y1A 2C6
Phone (867) 393-7069
Fax (867) 393-7071

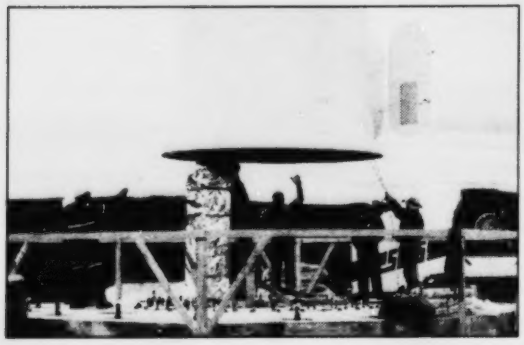
ELECTRIC POWER FACILITIES IN THE YUKON

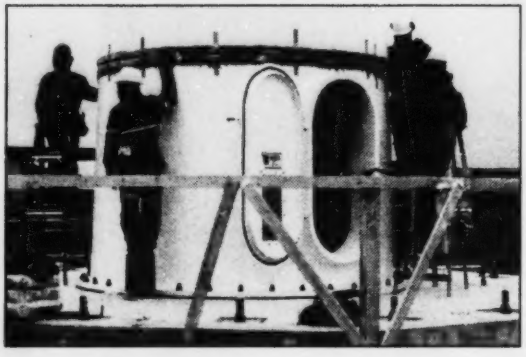


YEC SYSTEM (in MW)	
Hydro facilities	
Whitehorse (WAF)	40.0
Aishihik (WAF)	30.0
Mayo	5.0
Total	75.0
Wind facilities	0.2
Diesel facilities	
Whitehorse (WAF)	25.0
Faro (WAF)	13.6
Dawson	5.0
Mayo	1.6
Total	44.6
TOTAL: YEC SYSTEMS	**120.4**

YECL SYSTEM (in MW)	
Hydro facilities	
Fish Lake (WAF)	1.3
Diesel facilities	
Carmacks	1.5
Haines Junction (WAF)	0.1
Teslin (WAF)	1.5
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	12.9
TOTAL: YECL SYSTEM	**14.2**
TOTAL YUKON CAPACITY	**134.6**

WAF: Whitehorse-Aishihik-Faro grid





CORPORATE PROFILE

Established in 1987, the Yukon Energy Corporation is an electrical public utility incorporated, franchised and regulated by the ***Business Corporations Act,*** the ***Public Utilities Act,*** and the ***Yukon Waters Act.***

Governed by a Board of Directors appointed by the shareholder, Yukon Energy Corporation is a wholly owned subsidiary of the Yukon Development Corporation.

The corporation is the primary producer and transmitter of electrical energy in the territory. It distributes electrical power to wholesale and industrial customers, and to retail customers in Dawson City, Faro, Mayo, Champagne and other rural areas throughout the territory.

Yukon Energy's generating capacity is approximately 120 megawatts (MW) of electricity, 75 MW of which are provided by hydro facilities located at Whitehorse, Mayo and Aishihik Lake. The remaining 45 MW are provided by diesel generators in Whitehorse, Faro, Mayo and Dawson City. A small wind turbine located near Whitehorse generates about 0.2 MW of electrical energy. Annual electricity generation ranges between 260 and 460 gigawatt-hours (GWh), depending on customer demand.

At year-end, there were about 1,600 electricity consumers served directly by Yukon Energy. These customers were located primarily in and around Dawson City, Mayo, Faro and Champagne. The corporation also indirectly serviced about 11,500 consumers in Yukon communities that receive power from the Whitehorse-Aishihik-Faro grid including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River, and Teslin.

THE YEAR IN REVIEW

HIGHLIGHTS

Final 1998 electrical rates

A further step in grappling with the implications of the loss of 40 per cent electrical sales to the former Anvil Range Mine was taken with the Yukon Utilities Board approval of final electrical rates for 1998 including a 3.48 per cent rider. At the same time, Yukon Energy successfully deferred the need for a General Rate Application for a further year through effective cost control.

Infrastructure initiatives

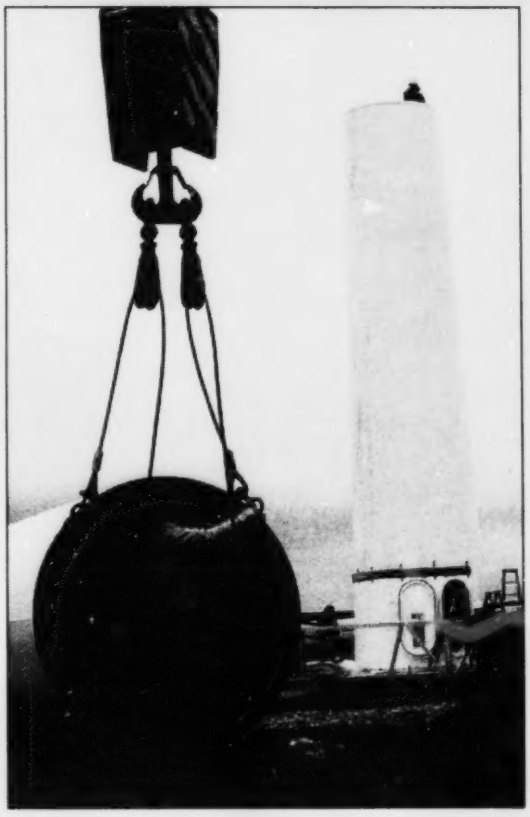
Yukon Energy initiated preliminary engineering and cost estimating for the proposed Mayo to Dawson City transmission system project. Work was also underway to establish a long-term plan for infrastructure upgrading and development.

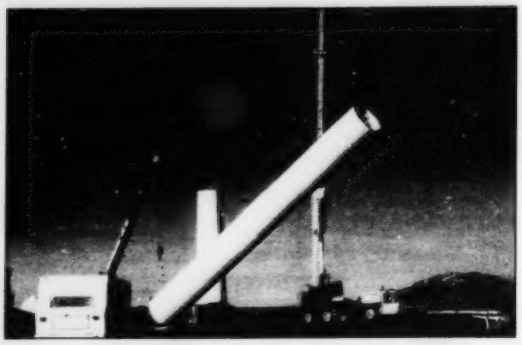
Environment policy and practices

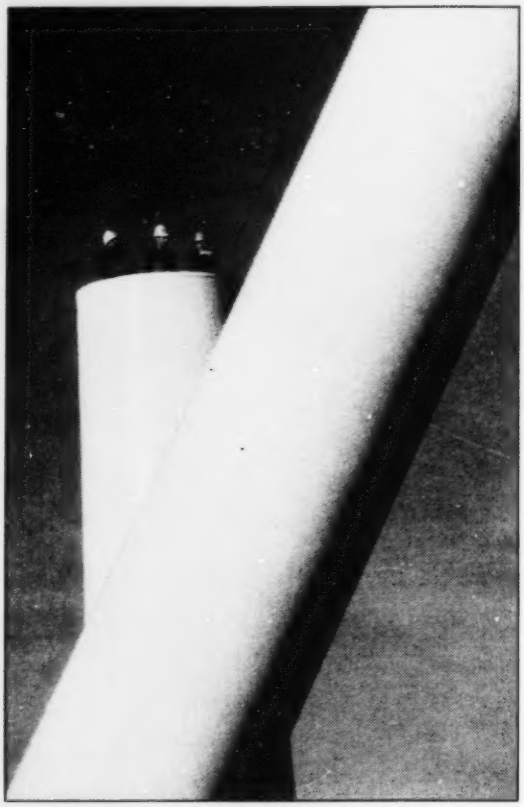
A new environment policy was adopted by the Board of Directors, and Yukon Energy joined the Canadian Electricity Association Environmental Commitment and Responsibility Program.

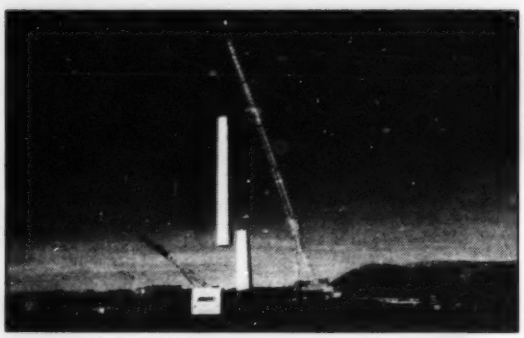
Significant progress was achieved on relicensing Yukon Energy's key renewable power facilities. Canadian Environmental Assessment Act (CEAA) screening for Aishihik relicensing formally began when Yukon Energy filed an environmental impact assessment with regulatory authorities and a water licence application was submitted to the Yukon Territory Water Board. A new 25-year water licence was approved by the Yukon Territory Water Board on a consolidated basis for the Whitehorse Rapids Generating Facility and the Lewes control dam. It was signed by the Minister of Indian and Northern Affairs in early 2000. Following community and regulatory consultation, a water licence application for the Mayo generating facility was also submitted to the Yukon Territory Water Board.

A new water management decision support system was installed and commissioned. It will help Yukon Energy maximize the value of available water resources and address mitigation requirements and regulatory reporting.









New corporate facilities completed

Replacing facilities destroyed in the October 1997 fire, the new Yukon Energy Building opened on the site of the Whitehorse Rapids Generating Facility. The building houses Yukon Energy corporate administration, technical services, and the system control centre. The building and its Yukon architects received national recognition in the form of the 1999 National Energy Efficiency Award for Commercial/Industrial buildings.

Other activities

Yukon Energy implemented, tested and audited its Year 2000 contingency plan in cooperation with the Yukon government Ministerial Task Force and other utilities. No problems were experienced at the year-end cut-over to 2000.

A new classification and pay equity plan was developed and fully implemented in cooperation with the Yukon Utility Workers Association.

As part of dam safety planning and a mock emergency measures exercise led by the City of Whitehorse, Yukon Energy prepared and evaluated an emergency preparedness plan for the Whitehorse Rapids generating facilities.

The corporation designed and piloted a new health and safety orientation program for employees.

YEAR 2000 READINESS

Yukon Energy's contingency planning for Y2K, initiated in 1998, had four objectives:

- to identify assets of the corporation that present possible Y2K risks and eliminate those risks;
- to communicate with suppliers and contractors to ensure supply chain resources would be available for the event rollover;
- to communicate with other agencies on the progress and readiness of Yukon Energy Corporation as an essential service; and
- to communicate with customers on the progress of Yukon Energy's readiness and to provide information on how customers can prepare.

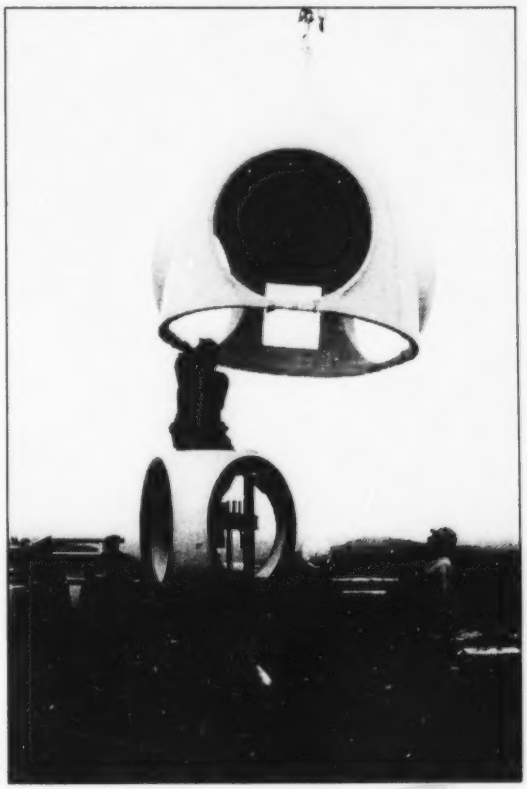
Joint contingency testing was done with The Yukon Electrical Company Limited in April and again in September as part of the North American Electric Reliability Council's continent-wide tests. All testing of equipment, systems, software and internal procedures and remediation was completed prior to December 31, 1999. Yukon Energy contributed through web sites and a series of newspaper articles to public communications coordinated by the Yukon government's Ministerial Task Force. Specific contingency plans were also prepared and implemented. There were no Y2K-related events on the December 31/January 1 rollover.

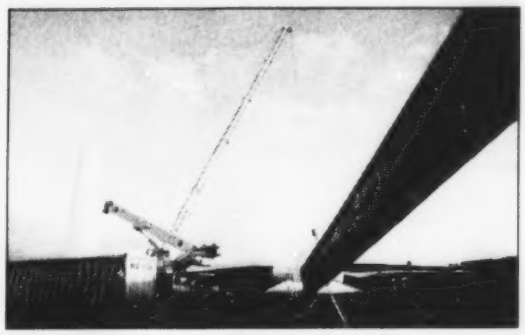
A clean management policy has been established to maintain the integrity and compliance of data and computer applications.

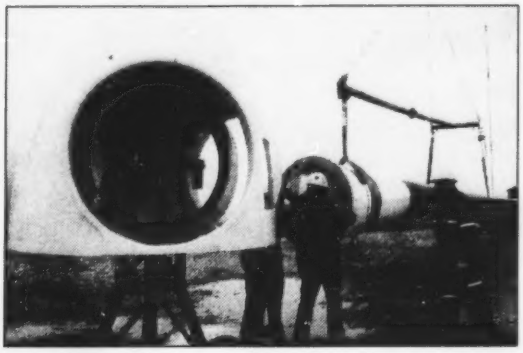
ENVIRONMENTAL PERFORMANCE

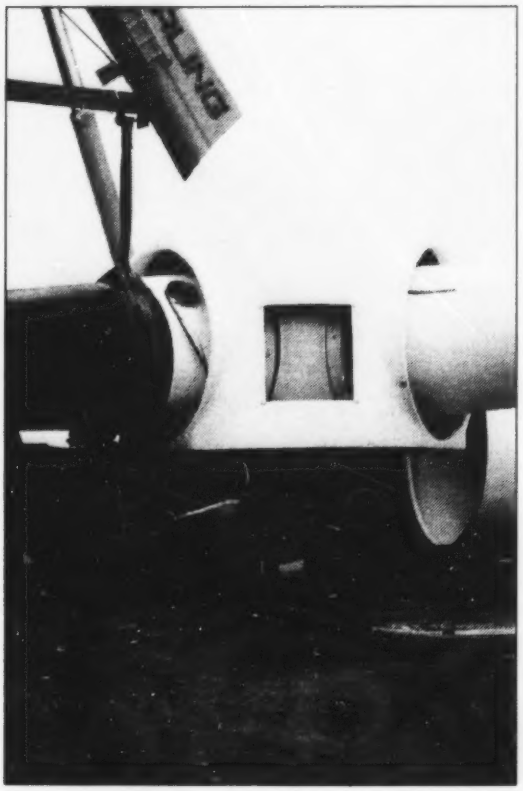
1999 environmental highlights included:

- adoption of the 1999-2003 Strategic Plan for Yukon Energy Corporation committing the utility to demonstrating environmental leadership and developing and maintaining energy infrastructure and services using a rigorous sustainable development approach;
- development and adoption of an environment policy and action plan; joining the Canadian Electricity Association's Environmental Commitment and Responsibility Program; adopting new indicators to measure performance relative to environment policy objectives;
- opening of the new Yukon Energy building in Whitehorse, the first C-2000 standard energy efficient commercial building north of 60°; the building received the 1999 National Energy Efficiency Award for Commercial/ Industrial Buildings;
- installation of a new computerized decision support system for water management;
- completion and filing of a comprehensive environmental impact assessment using scientific and traditional knowledge for relicensing of the Aishihik hydro development; this was the culmination of five years of research on the effects of 25 years of operations on the









environment at Aishihik Lake, Yukon; implementation of the first year of a fisheries monitoring program building on the earlier studies;

- successful relicensing of Whitehorse Rapids hydro facilities for a 25-year term, and, through cooperative efforts, working with Department of Fisheries and Oceans, Yukon Department of Renewable Resources and Yukon Fish and Game Association on practical improvements in fish mitigation facilities and salmon/freshwater hatchery operations;
- development and initial implementation of new energy efficiency programs and pilot projects, targeting reductions in winter and related peak diesel generation loads, through partnerships with the Yukon Conservation Society, Yukon Housing Corporation, and involving the business community and residential households;
- commissioning and testing of a portable solar hybrid demonstration unit, complemented by a territory-wide survey of isolated and rural electrical market opportunities;
- sponsorship, in conjunction with various federal and territorial government agencies and Yukon First Nations, of a major forthcoming multi-year southern lakes landcover and habitat mapping and water quality project, spear-headed by Ducks Unlimited Canada;
- tendering for a commercial-scale wind turbine as part of the expansion of the wind research and development program following on the heels of the best results ever achieved in the five-year research and development project on Haeckel Hill, near Whitehorse;
- analysis of greenhouse gas emission offsets and potential credit sales in connection with two forthcoming infrastructure projects; and
- comprehensive dam safety review of the Mayo hydro development together with flood inundation mapping.

YUKON UTILITIES BOARD ORDERS

The Yukon Utilities Board issued the following orders, pursuant to the *Public Utilities Act*, which affect the business and affairs of Yukon Energy:

- Board Order 1999-1: Awarding intervenor and hearing costs with respect to the Yukon Energy Corporation 1997 Final Rate Hearing (March 3, 1999);
- Board Order 1999-2: Directing Yukon Energy Corporation how to record the financial impacts of Board Order 1998-5 in the accounts of the fiscal year to which they apply (June 28, 1999);
- Board Order 1999-3: Approving additions and deletions to the Diesel Contingency Fund for 1996 – 1998 (October 27, 1999);
- Board Order 1999-4: Accepting the rate schedule 42 settlement (October 27, 1999);
- Board Order 1999-5: Finalizing Yukon Energy Corporation's 1998 rates (November 10, 1999).

SUMMARY OF UTILITY OPERATIONS

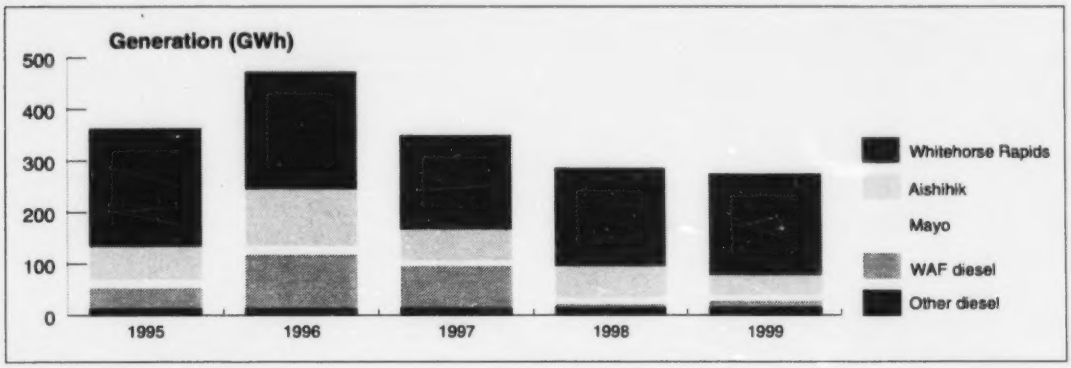
	1999	1998	1997	1996	1995
Generating capacity (in MW)					
Hydro	75	75	75	75	75
Diesel	45	45	45	45	45
Total	120	120	120	120	120
Peak demand (in MW)					
WAF System	51	54	67	79	79
Mayo	3	3	3	3	4
Dawson	3	3	3	2	2
Total	57	60	73	84	85
Generation (in GWh)					
Hydro					
Whitehorse Rapids	195	191	183	229	230
Aishihik	38	63	59	110	64
Mayo	10	11	11	16	16
Total hydro	243	265	253	355	310
Diesel					
WAF system	12	7	82	105	40
Other	15	15	14	13	13
Total diesel	27	22	96	118	53
Total generation	270	287	349	473	363
% hydro	89.8	92.3	72.5	75.1	85.4
% diesel	10.2	7.7	27.5	24.9	14.6
Electric sales (in $000)					
Residential	1,372	1,519	1,555	1,648	1,389
General service	1,959	2,045	1,978	1,795	2,092
Industrial	205	1,332	7,542	14,207	480
Wholesale	19,357	19,568	15,432	16,020	18,135
Other	288	70	1,149	280	79
	23,181	24,534	27,656	33,950	22,175
Electric sales (in MWh)					
Residential	10,321	11,403	12,796	14,112	11,701
General service	12,390	12,981	13,561	13,607	12,571
Industrial	3,692	20,759	80,818	179,101	94,568
Wholesale	223,643	222,958	220,508	232,086	216,624
Other	226	223	233	229	227
	250,272	268,324	314,355	439,135	335,691

Note: The summary of utility operations has been prepared on a calendar year basis to coincide with the test periods used for rate-making purposes and the fiscal year of the Yukon Energy Corporation.

OPERATIONS AND FINANCIAL REVIEW

Generation

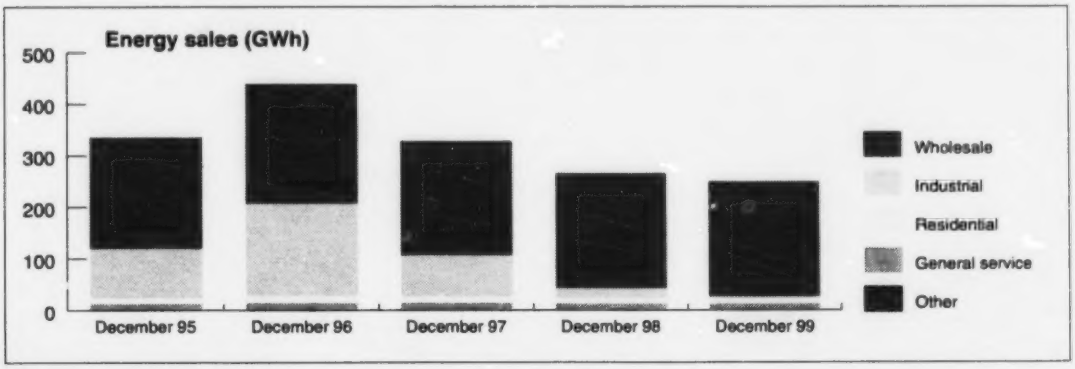
Production levels in 1999 decreased to 270 GWh from 286 GWh in 1998. Hydro-electric generation accounted for 90 per cent of total generation in 1999, compared to 92 per cent in 1998. The decrease in total generation reflects the first full year of operations without the Anvil Range Mine.



Energy sales

Energy sales for the year ended December 31, 1999 decreased approximately 6 per cent to 250 GWh, compared to 268 GWh for the year ended December 31, 1998. The shutdown of the Faro mine accounted for the major portion of the decrease, with sales to industrial customers declining approximately 79 per cent to 3.7 GWh in 1999 (1998 – 18 GWh) and sales to residential and general service customers declining 6.8 per cent to 22.7 GWh in 1999 (1998 – 24.4 GWh).

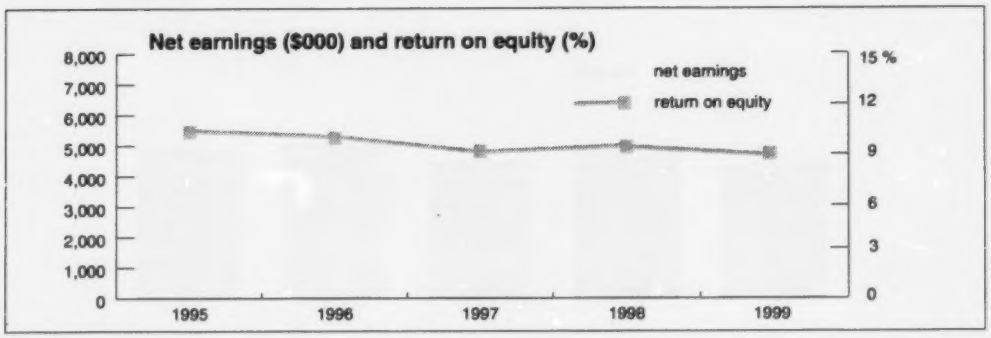
Sales revenue for the year ended December 31, 1999 was $23.2 million (1998 – $24.5 million).



Financial review

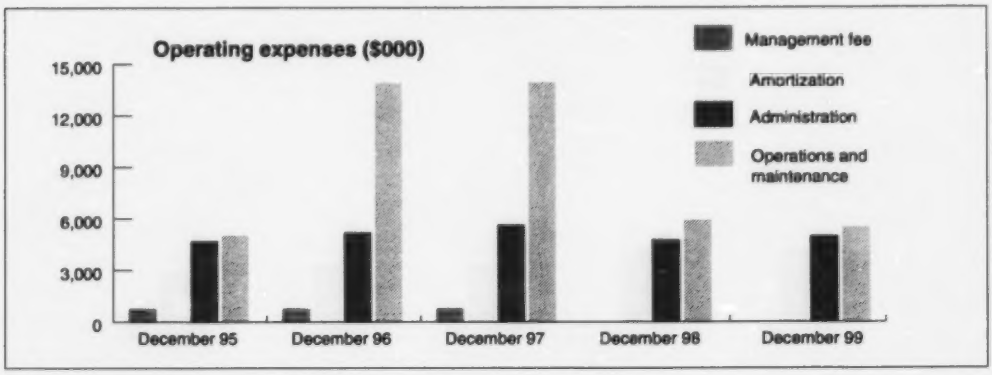
(thousands of dollars unless otherwise stated)

	1999	1998
Net earnings	4,489	4,855
Sale of power	23,181	24,534
Capital expenditures	10,776	4,672
Capital assets	118,014	111,015
Long-term debt	74,784	73,199
Return on equity (%)	8.92	9.87
Debt to equity	60:40	60:40



Operating expenses

Operating expenses totalled $14.9 million in 1999 (1998 – $15.0 million). Administration accounted for 28.5 per cent (1998 – 28.5 per cent) of the total, amortization accounted for 33.8 per cent (1998 – 32 per cent) and operations and maintenance accounted for 37.7 per cent (1998 – 39.5 per cent).



Administration expenses totalled $4.2 million in 1999, compared to $4.3 million in 1998.

Amortization of capital assets totalled $4.2 million in 1999 and $4.2 million in 1998. Amortization of deferred charges totalled $0.8 million in 1999 and $0.6 million in 1998.

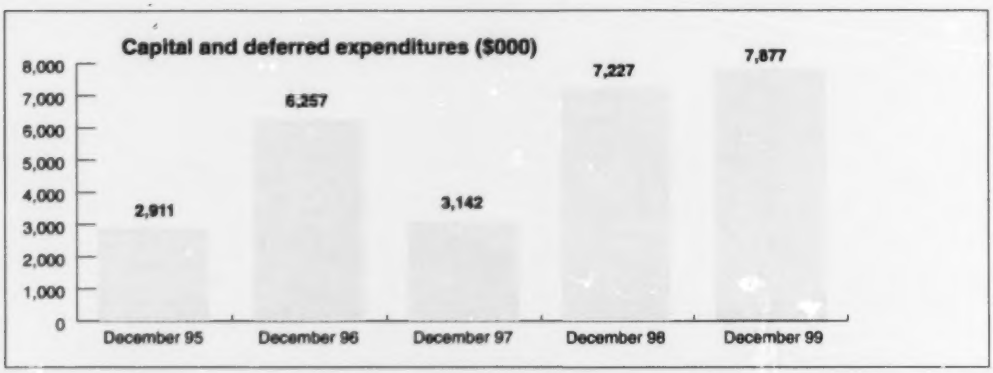
Operations and maintenance expenses decreased to $5.6 million in 1999 from $5.9 million in 1998, due to the shutdown of the Anvil Range Mine.

Other expenses (income)

Finance charges include the corporation's interest expense offset by interest and finance income and the allowance for funds used during construction (AFUDC). The finance charges decreased to $3.9 million in 1999 from $4.6 million in 1998.

Capital and deferred expenditures

The corporation's principal requirement for funds is for capital and deferred expenditures on its utility assets. Capital and deferred expenditures totalled $14.5 million for 1999, up $6.6 million from expenditures of $7.9 million in 1998.



During 1999 capital spending totalled approximately $10.1 million (1998 – $4.5 million), of which $231,000 (1998 – $171,000) was for transmission projects, $358,000 (1998 – $285,000) was for distribution projects, $5,835,000 (1998 – $599,000) was for generation projects and $3,718,000 (1998 – $3,432,000) was for general property and equipment.

Deferred expenditures related to feasibility studies and relicensing totalled approximately $1,044,000 (1998 – $753,000). Major costs included $696,000 for feasibility studies and $348,000 for generating equipment overhauls (1998 – $411,000 for feasibility studies and $342,000 for regulatory costs).

Capital program

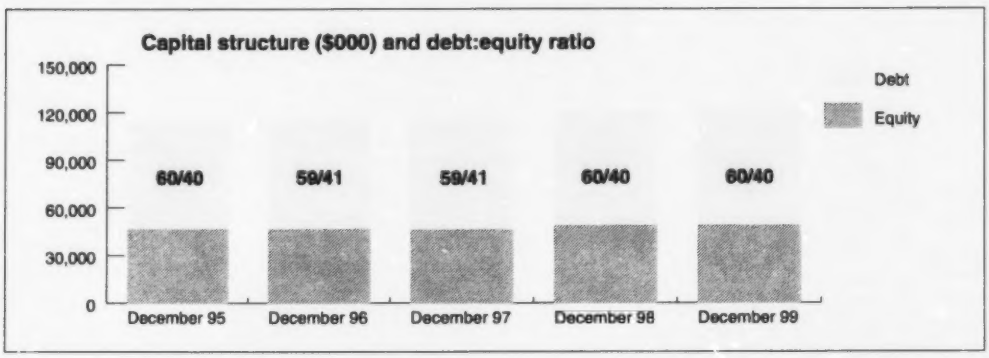
A broad program of capital projects was carried out in 1999. The hydro plant reconstruction was completed, as was the new corporate office building. This office building won a national energy efficiency award and includes a new power system control centre. Significant efforts were also focused on Year 2000 readiness preparations, the purchase and installation of financial systems hardware and software, and the relicensing of all three hydro plants.

Other major efforts included work toward power servicing of Mendenhall and some large subdivisions in Dawson City, the completion of a feasibility study and peer review of plant life assessment, and a new 25 kV Pelly River crossing at Faro. Distribution system upgrading in Mayo and new engine control systems in the Dawson City diesel plant were also completed.

Capital structure

At December 31, 1999, long-term debt totalled $74.8 million, compared to $73.2 million at December 31, 1998.

The corporation has an operating demand overdraft facility bearing interest at bank prime rate, allowing it to borrow up to $10 million.



At December 31, 1999, the corporation's weighted cost of debt financing was 8.2 per cent and the debt:equity ratio was 60:40, compared to 8.1 per cent and 60:40 respectively as at December 31, 1998.

AUDITOR'S REPORT

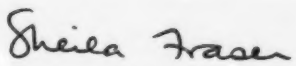
Ray Wells, Chair
Yukon Energy Corporation

I have audited the balance sheet of the Yukon Energy Corporation as at December 31, 1999 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.

In my report dated June 30, 1999, my opinion on the December 31, 1998 financial statements contained a reservation because of an understatement of revenues and net income of $2,139,000 for the year ended December 31, 1998. Management recorded this amount as revenue and net income for the year ended December 31, 1997, as directed by the Yukon Utilities Board in Board Order 1999-2.



Sheila Fraser, FCA
Deputy Auditor General
for the Auditor General of Canada

July 21, 2000
Ottawa, Canada

Balance sheet

as at December 31, 1999 (in thousands of dollars)

	1999	1998
ASSETS		
Current assets		
Cash (note 3)	$1,218	$ —
Accounts receivable (note 4)	9,775	9,320
Inventories	811	705
Prepaid expenses	347	281
	12,151	**10,306**
Long-term receivables		
Long-term receivables (note 5)	5,143	6,126
Mortgages receivable	47	63
	5,190	**6,189**
Diesel Contingency Fund (note 6)	(57)	2,236
Capital assets (note 7)	118,014	111,015
Deferred charges (note 8)	4,001	3,750
	$139,299	**$133,496**
LIABILITIES		
Current liabilities		
Bank indebtedness (note 3)	—	3,505
Accounts payable	3,082	1,673
Current portion of long-term debt (note 9)	631	585
Due to (from) Yukon Development Corporation (note 10)	269	(147)
	3,982	**5,616**
Deferred revenue (note 11)	6,993	343
Reserve for uninsured losses (note 12)	(746)	(621)
Reserve for future removal and site restoration costs	4,069	3,532
Diesel Contingency Fund (note 6)	(57)	2,236
Long-term debt (note 9)	74,784	73,199
SHAREHOLDER'S EQUITY		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	39,000	39,000
Retained earnings	11,274	10,191
	50,274	**49,191**
	$139,299	**$133,496**

The accompanying notes are an integral part of the financial statements.
Contingencies (Notes 5, 16, 17)

Approved by the Board:

Chair

Director

Statement of income and retained earnings

For the year ended December 31, 1999 (in thousands of dollars)

	1999	1998
Revenue		
Sales of power	$23,181	$24,534
Water level reimbursement from parent	74	74
Other	122	(15)
	23,377	**24,593**
Operating expenses		
Operations and maintenance	5,614	5,943
Administration	4,237	4,288
Amortization of capital assets	4,250	4,156
Amortization of deferred charges	792	660
	14,893	**15,047**
Income from operations	8,484	9,546
Other expenses (income)		
Finance charges, net (note 13)	3,945	4,641
Provision for contingency reserves	50	50
	3,995	**4,691**
Net income	4,489	4,855
Retained earnings, beginning of year	10,191	9,954
Power rate relief and subsidy payments	—	(402)
Dividend	(3,406)	(4,216)
Retained earnings, end of year	**$11,274**	**$10,191**

The accompanying notes are an integral part of the financial statements.

Statement of cash flows

for the year ended December 31, 1999 (in thousands of dollars)

	1999	1998
Cash provided by (used in) operating activities		
Net income	**$4,489**	**$4,855**
Items not resulting in a cash payment		
Amortization of capital assets	4,250	4,156
Amortization of deferred charges	792	660
	5,042	**4,816**
Changes in non-cash components of working capital		
Increase in accounts receivable	(455)	(6,086)
Decrease (Increase) in inventories	(106)	77
Increase in prepaid expenses	(66)	(33)
Increase in Due to Yukon Development Corporation	416	670
Increase (Decrease) in accounts payable	1,409	(1,380)
Increase in reserve for future removal and site restoration cost	537	569
	1,735	**(6,183)**
Cash provided by operating activities	11,266	3,488
Cash provided by (used in) investing activities		
Additions to capital assets	(10,776)	(4,672)
Contributions for plant extension	(473)	687
Increase in deferred charges	(1,043)	(176)
Increase in reserve for uninsured losses	(125)	(563)
Cash used in investing activities	**(12,417)**	**(4,724)**
Cash provided by (used in) financing activities		
Additions to long-term debt	3,406	4,216
Repayments of long-term debt	(1,775)	(654)
Decrease (Increase) in long-term receivables	999	(1,448)
Increase in deferred revenue	6,650	47
Dividends paid	(3,406)	(4,216)
Cash provided by financing activities	**5,874**	**(2,055)**
Cash provided by (used in) other activities		
Power rate relief and subsidy payments	—	(402)
Cash used for other activities	**—**	**(402)**
Net increase (decrease) in cash during the year	**4,723**	**(3,693)**
Cash (bank indebtedness), beginning of year	**(3,505)**	**188**
Cash (bank indebtedness), end of year	**1,218**	**(3,505)**

The accompanying notes are an integral part of the financial statements.

Notes to financial statements

December 31, 1999 (tabular amounts in thousands of dollars)

1. Nature of operations

Yukon Energy Corporation (the "corporation") was incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation, a Yukon Crown corporation. The Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon.

2. Significant accounting policies

Financial statement presentation

The financial statements of the corporation have been prepared by management and conform to accounting principles generally accepted in Canada and take into account generally accepted methods and practices of regulatory bodies. The regulatory accounting practices adopted by the corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of the corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles. A description of the significant accounting policies follows.

Water regulation

The Yukon Territory Water Board decides if and for how long the corporation will have a water licence for the purposes of operating dams for hydro generation. The licences will also indicate terms and conditions for the operation of dams. The costs incurred in securing a licence are amortized over the term of the existing licence plus the expected term of the renewed licence.

Rate regulation

The corporation is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act* (Canada) and the Yukon Utilities Board (YUB) pursuant to the *Public Utilities Act* (Yukon). The regulatory process begins when the corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two years. The Yukon Utilities Board must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon government through Order-in-Council that specify how the interests of the customer and the utilities are to be balanced.

The YUB follows a two-stage decision process. In the first stage, the total costs that the utility will incur by making electricity available to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment;

- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost-of-service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Order-in-Council, which give specific government direction to the Board.

Normally, the corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final as a result of the hearing. Interim hearings and interim rates may be used to deal with unforeseen circumstances, such as those described in Note 5.

Capital assets

Capital assets are stated at cost which includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 35 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Transportation	13 to 14 years
Other equipment	5 to 15 years

The corporation capitalizes development studies and an allowance for funds used during construction (AFUDC) at a rate approved by the Yukon Utilities Board for debt and equity funds.

Certain additions are made with the assistance of cash contributions where the estimated revenue is less than the cost of providing service or where special equipment is needed to supply customers' specific requirements. These contributions are amortized to income on the same basis as, and offset the amortization charge of, the assets to which they relate. Capital assets are disclosed net of unamortized contributions. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Inventories

Inventories which consist of materials, supplies and diesel fuel are recorded at the lower of average cost or replacement value.

Deferred charges

Deferred charges are recorded at cost less accumulated amortization.

All demand-side management expenditures related to administration expenses and information programs are expensed as incurred, while costs related to specific incentive programs are deferred and amortized to earnings on a straight-line basis over five years.

Planning and study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings over five years starting in the year that the project is abandoned.

Costs related to water licence renewals are deferred and amortized to earnings over the term of the existing license plus the expected term of the renewed license, which is generally a long-term arrangement of 25 years.

Regulatory hearing costs are deferred and amortized to earnings over the period to which the hearing relates.

General equipment overhaul expenditures in excess of $250,000 are deferred and amortized to earnings on a straight-line basis over five years.

Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Reserve for uninsured losses

The corporation maintains a reserve for uninsured losses. An appropriation to the reserve of $50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

Reserve for future removal and site restoration cost

The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These costs are amortized over the estimated useful life of the asset on a straight-line basis.

Revenue recognition

Revenue from the sale of power is recorded when electricity is delivered.

Power rate relief and subsidy payments

Power rate relief and subsidy payments are paid as directed by the Yukon government and charged to retained earnings as required by regulation.

Measurement uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable and other long-term receivables. Actual results could differ from these estimates.

3. Cash and bank indebtedness

	1999	1998
Bank balance (overdraft)	$1,142	$(1,907)
Operating line of credit	—	(1,600)
Short-term investments	76	2
	$1,218	**$(3,505)**

The corporation has, if needed, an operating demand line of credit with its banker that allows the corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon government.

4. Accounts receivable

	1999	1998
Fire insurance claim (notes 7, 11, 16)	$3,121	$3,604
Rate adjustment receivable	2,960	2,362
Wholesale energy sales	1,618	1,712
Retail energy sales	1,707	966
Other	369	676
	$9,775	**$9,320**

Accounts receivable includes $2,143,000 (1998 - $1,801,000) due from The Yukon Electrical Company Limited. The corporation's sales to The Yukon Electrical Company Limited were approximately $15,258,000 (1998 - $15,232,000) but, due to the wholesale nature of the sales, the corporation is not economically dependent on them.

5. Long-term receivables

	1999	1998
Anvil Range Mine bad debt	$3,177	$3,177
Anvil Range Mine Rider J cost of service shortfall	1,850	2,775
Anvil Range Mine Rider G balance	116	174
	$5,143	**$6,126**

The corporation is exposed to credit risks in the event of non-performance by counterparties to financial instruments. Operations of the Anvil Range Mine in Faro ceased in January, 1998 and the Anvil Range Mining Corporation applied for court protection from its creditors. The corporation's management expects to recover the receivable through future customer rates. The corporation requested, in the April 22, 1998 rate application, that the receivable balance be recovered from its customers over five years. This application was denied by the Yukon Utilities Board in Board Order 1998-5.

The corporation has appealed this decision to the Court of Appeal. Until the Court of Appeal decides whether or not the corporation is entitled to collect the receivable from its customers, the amount has been recorded as a long-term receivable. Based on past experience, it is management's position that the Court of Appeal will allow the corporation to collect this amount. The date for the appeal has not been set as a factum has yet to be filed.

There is uncertainty regarding the collection of this receivable through future customer rates since it requires the approval of the Court of Appeal. The amount that may subsequently be approved for collection might vary from nil to $3,177,182. Any shortfall in future recovery below $3,177,182 will be recorded as an expense in the period(s) the shortfall becomes reasonably assured.

In accordance with Board Order 1998-5, the corporation recorded the cost of service shortfalls as a long-term receivable of $2,775,000 for 1998 and $1,850,000 for 1999, and recorded Rider G balance for $174,000 for 1998 and $116,000 for 1999, related to the closure of Anvil Range Mine. The Yukon Utilities Board has ordered that this long-term receivable be included in the rate base of the corporation. The Board also ordered that the amount to be included in the corporation's rate base be reduced by $925,000 per year commencing in 1998 for the cost-of-service shortfall and $58,000 per year for Rider G. The long-term portion of $1,850,000 represents two years at $925,000 per year, and $116,000 represents two years at $58,000 per year.

6. Diesel Contingency Fund

The Diesel Contingency Fund was established with Board Order 1996-6 by the Yukon Utilities Board. The fund is administered by the corporation on behalf of the Yukon Utilities Board, and as such, is recorded as a trust asset and a trust liability.

	1999	1998
Opening Balance	$2,236	$2,835
Interest	13	159
Hydro availability buildup (drawdown)	(1,132)	467
Forest fire impact buildup	—	58
Yukon Utilities Board Order 1998-5	(1,174)	(1,283)
Closing Balance	**$(57)**	**$2,236**

In accordance with Board Order 1998-5, the corporation made contributions to eligible customers to offset Rider J until the Diesel Contingency Fund was depleted.

7. Capital assets

	Cost	Accumulated amortization	1999 Net book value	1998 Net book value
Hydro-electric and diesel plants	$118,355	$27,178	$91,177	$87,648
Transmission	18,353	5,178	13,175	13,517
Distribution	8,828	2,674	6,154	6,115
Buildings and other equipment	8,876	1,784	7,092	3,591
Transportation	740	60	680	625
Land	110	—	110	103
Construction-in-progress	2,230	—	2,230	2,355
	157,492	**36,874**	**120,618**	**113,954**
Less: Contributions for plant extensions	3,068	464	2,604	2,939
	$154,424	**$36,410**	**$118,014**	**$111,015**

The above amounts exclude the costs of assets which were damaged and destroyed in the October 30, 1997 fire at the Whitehorse Rapids Generating Facility. The costs of the assets which were used to reconstruct the facility are included in the capital asset costs above. The resulting gain from insurance proceeds is included in deferred revenue (see notes 11 and 16).

The capital assets also include $1,991,982 for betterments which improved the facility beyond the value replaced by the insurance proceeds.

8. Deferred charges

	Cost	Accumulated amortization	1999 Net book value	1998 Net book value
Relicensing	$3,956	$527	$3,429	$3,247
Feasibility Studies	2,878	2,780	98	184
Generating equipment overhauls	640	166	474	292
Other	—	—	—	27
	$7,474	**$3,473**	**$4,001**	**$3,750**

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

9. Long-term debt

The corporation's long-term debt is summarized as follows:

	1999	1998
Government of Canada		
$40,000,000 flexible term note bearing interest at 7% payable in annual installments of $1,000,000 interest and capital, with the balance due January 1, 2028	$29,800	$30,016
Yukon Development Corporation		
Unsecured advances bearing interest at 9.79% due one year after demand	17,158	18,358
Unsecured advances bearing interest at 8.94% due one year after demand	1,654	1,654
Unsecured advances bearing interest at 10.24% due one year after demand	1,627	1,627
Unsecured advances bearing interest at 9.17% due one year after demand	1,696	1,696
Unsecured advances bearing interest at 8.78% due one year after demand	3,285	3,285
Unsecured advances bearing interest at 7.12% due one year after demand	1,110	1,110
Unsecured advances bearing interest at 6.68% due one year after demand	4,216	4,216
Unsecured advances bearing interest at 7.49% due one year after demand	3,406	—
Toronto Dominion Bank of Canada		
$12,400,000 term note bearing interest at 7.94% payable in blended monthly installments of $102,000 interest and capital, with the balance of $67,000 due October 31, 2016. The note is guaranteed by the Yukon government	11,463	11,822
	75,415	**73,784**
Less: Current portion	631	585
	$74,784	**$73,199**

Government of Canada note

The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire the assets of Northern Canada Power Commission. The note is secured by a mortgage against the acquired assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts.

Long-term debt repayment

Scheduled repayments for all long-term debt are as follows:

2000	631
2001	674
2002	721
2003	769
2004	821
Thereafter	71,799
	75,415

Fair value

Fair value of $62,844,000 (1998 - $82,151,000) for all long-term debt was estimated using discounted cash flow analysis based on an estimate of the corporation's current borrowing rate for similar borrowing arrangements.

10. Related party transactions

Entity	Relationship	Transaction/Balance	Recorded as	1999	1998
Yukon Development Corporation	Parent	Interest payments	Finance charges	$2,916	$2,635
		Receivable (payable) for costs	Due (to) from Yukon Development Corp.	(269)	147
		Transition cost payments	Other income	—	70
		Transition capital payment	Contributions	—	1,000

The transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. These balances are payable on demand and have arisen from the sales of products and services referred to above.

11. Deferred revenues

	1999	1998
Deferred maintenance reserve	$148	$222
Deferred gain on fire insurance proceeds	6,555	—
Deferred diesel fuel price adjustment	290	121
	$6,993	**$343**

The maintenance reserve was set up to offset the future cost of maintenance related to compensation received by the corporation under the Aishihik Order-in-Council 1997/12 passed by the Yukon government. The reserve was established in 1997, and is being taken into income on a straight-line basis over 5 years.

The deferred gain represents the gain resulting from insurance proceeds in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the Yukon Utilities Board Order 2000-3. (see note 7)

The corporation is authorized by Order In Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel in accordance with procedures determined by the Yukon Utilities Board. Significant fluctuations in diesel fuel costs due to unusual circumstances or events, which result in a diesel fuel price adjustment, are deferred and recovered or refunded over specific future periods designated by the YUB through revised rates charged to customers.

12. Reserve for uninsured losses

	1999	1998
Opening balance	$(621)	$(58)
Expense	50	50
Losses incurred		
Asset replacement	(67)	(33)
Line failures	(33)	(35)
Forest fires	—	(178)
Wind storm	(75)	—
Whitehorse Rapids Generation interruption	—	(367)
Closing balance	**$(746)**	**$(621)**

The corporation's target balance for the reserve for uninsured losses is based on the corporation's past experience. The corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

13. Finance charges, net

	1999	1998
Interest on long-term debt	$4,240	$4,445
Other interest	52	150
Interest (income) expense	(73)	82
Allowance for Funds Used During Construction (AFUDC)	(274)	(36)
	$3,945	**$4,641**

14. Rate applications

On April 22, 1998, the corporation filed a revised 1997 and 1998 rate application requesting a reduction in the corporation's rate of return on equity in 1997, 1998 and 1999, the collection of the Anvil Range Mine receivable and the cost-of-service shortfalls in 1997 and 1998 caused by the shutdown of the mine. The corporation also requested Board orders to finalize 1997 rates and approve interim 1998 rates.

On July 30, 1998, the corporation received the Yukon Utilities Board Order 1998-5 with respect to this application. The Board ordered that the rate of return on equity be reduced from 10.75% to 9.45% for 1997 and 9.138% for 1998 and 1999. The Board disallowed the recovery of the Anvil Range Mine receivable of $3,177,200 and stated that the Board "was of the opinion" that the corporation should absorb the debt. This decision is being appealed through the Courts. The Board ordered that the corporation's rates for 1997 are confirmed as final.

The Board approved the recovery of 1997 revenue shortfall of $812,000 through a 5.8% rider, effective August 1, 1998 until fully collected. The Board also acknowledged additional revenue shortfall of $1,326,700 for 1997, $4,777,400 for 1998 and $4,518,000 for 1999. The Board approved recovery of these shortfalls, excluding amounts related to the disallowed Anvil Range Mine receivable, through an interim refundable rider of 9.48% effective for billings issued on or after August 1, 1998. (In subsequent Board Order 1998-6, the Board approved an extension of the implementation date for the riders from August 1, 1998 to September 1, 1998). The rider was adjusted to 15.28% after the 5.8% rider ended for the 1997 $812,000 shortfall. In Board Order 1999-5, the Board approved the corporation's 1998 rates as final and directed the corporation to increase rider J from 15.28% to 18.74% effective December 1, 1999 subject to the corporation not filing for a further rate increase for the year ending December 31, 2000.

15. Pension costs and obligations

The corporation has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 18 years.

The corporation has contracted with external organizations to provide services of trustee, administrator, and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of December 31, 1999 by the consulting actuarial firm Aon Consulting Inc. The actuarial valuation includes

services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1999 to December 31, 1999, and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and The Yukon Electrical Company Ltd., dated February 5th, 1999.

The fair value of the plan assets is based on market values as reported by Royal Trust as at December 31, 1999.

The following table sets out the assumptions and pension amounts as at December 31, 1999. The corporation's employees have the option to belong to the corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). As at December 31, 1999, the corporation's defined pension plan had 41 members, and the RRSP plan had 12 members.

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the year's maximum pensionable earnings (Canada Pension Plan) for the same 5-year period.

Annual cost of living increases to a maximum of 3.25% are provided to pensioners to the extent that the funds are available in the indexing fund. The corporation contributes amounts as prescribed by an independent actuary. Employees make basic and indexed contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 2.0% of earnings in excess of year's maximum pensionable earnings

to a maximum of $2,500 per year.

	1999	1998
Discount rate	7.00%	7.00%
Expected long-term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	18 years	19 years
Benefit obligation determined by actuarial valuation	$3,298	$2,806
Fair value of plan assets	3,615	2,803
Plan surplus (deficit)	317	(3)
Pension expense	222	213
Employer contributions	193	208

16. Contingencies

(a) Fire insurance proceeds

The corporation is in the process of negotiating a settlement with its insurer with respect to proceeds arising from a fire which destroyed capital assets of the corporation. Management used its best estimate to determine the proceeds. However, if the proceeds are greater or less than the estimate, a larger or smaller gain will be recognized in future years.

(b) General

In the ordinary course of business activities, the corporation is a plaintiff and has been named as a defendant in certain litigation and other claims. Management believes that the resolution of such litigation and claims will not have a material adverse effect on the position of the corporation. Yukon Energy Corporation also has claims pending against certain parties, the outcomes of which are not yet determinable.

17. Environmental liabilities

The corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The corporation conducts its operations so as to protect public health and the environment, and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the corporation, is considered probable and the costs can be reasonably estimated.

18. Comparative figures

Certain 1998 figures, which are presented for comparative purposes, have been reclassified to agree with the current year's presentation.

Directors and staff at December 31, 1999

Board of Directors

Chair	Ray Wells
Vice-Chair	Ed Chambers
Directors	Fred Blanchard
	Carl Charlie
	Aileen Horler
	Pat Irvin
	Rob McWilliam
	Sally Wright

Officers

President and CEO	Rob McWilliam
Corporate Treasurer	Don Willems
Corporate Secretary	Duncan Sinclair
Assistant Corporate Secretary	Darlene Morgan
Officer	John Maissan

Audit Committee

Chair	Ed Chambers
Members	Pat Irvin
	Rob McWilliam

Human Resources Committee

Chair	Ray Wells
Members	Aileen Horler
	Sally Wright
	Rob McWilliam

Auditors

Auditor General of Canada

Yukon Energy Corporation

P. O. Box 5920
Whitehorse, Yukon Y1A 5L6
Phone (867) 393-5300
Toll free in the Yukon 1-877-712-3375
Fax (867) 393-5323